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E.O. 11652: N/A

TAGS: EGEN, OECD, OVIP (DONALDSON, WILLIAM H.)

SUBJECT: OECD XCSS MEETING APRIL 23-24: TEXT OF
DONALDSON STATEMENT ON OIL SITUATION AND COOPERATION IN
TRADE, MONETARY AND DEVELOPMENT POLICIES.

1. FOLLOWING IS TEXT OF STATEMENT MADE APRIL 23 BY
UNDER SECRETARY DONALDSON TO XCSS ON AGENDA ITEM 3, THE
OIL SITUATION AND COOPERATION IN TRADE, MONETARY AND
DEVELOPMENT POLICIES:

PRIOR TO ADDRESSING THE SPECIFIC POLICY ISSUES BE-
FORE US TODAY ON THIS KEY AGENDA ITEM, I THOUGHT IT MIGHT
BE HELPFUL TO MAKE SOME GENERAL REMARKS ON THE ENERGY
PROBLEMS WHICH DOMINATE MUCH OF OUR CURRENT THINKING.

WORLD MARKET FOR ENERGY

WE DO NOT VIEW THE ENERGY PROBLEM AS EXCLUSIVELY
ONE OF RESOURCES IN SCARCE SUPPLY. ENERGY SUPPLIES CAN
BE AVAILABLE IN MORE THAN ADEQUATE AMOUNTS. HIGHER
PRICES THAN IN THE PAST HAVE AND SHOULD CONTINUE TO
DAMPEN DEMAND WHILE NEW TECHNOLOGIES WILL BE DEVELOPED
OVER TIME, TO REDUCE OUR DEPENDENCE ON NON-RENEWABLE
FOSSIL FUELS. THE PROBLEM WE FACE TODAY CENTERS LARGELY
ON THE PRICE OF OIL. IF PRESENT PRICES ARE MAINTAINED,
THEY ARE LIKELY TO CAUSE ALTERNATIVE ENERGY SOURCES TO
BE DEVELOPED AT COSTS FAR HIGHER THAN WOULD OTHERWISE
BE REQUIRED. THE END RESULT COULD BE THAT IN THE EARLY
1980'S, THE WORLD WOULD BE PRODUCING AND CONSUMING
LARGE QUANTITIES OF HIGH COST ENERGY -- WHILE LESS
EXPENSIVE OIL REMAINS IN THE GROUND. ECONOMIC GROWTH
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THROUGHOUT THE WORLD WOULD HAVE BEEN UNNECESSARILY
CONSTRAINED, AND POORER COUNTRIES IN PARTICULAR, WOULD
HAVE SUFFERED SUBSTANTIALLY.

FORTUNATELY, SUCH AN OUTCOME IS NOT NECESSARY
AND THERE ARE REASONS TO THINK IT IS NOT LIKELY. THERE
IS ALREADY EVIDENCE OF A PRICE INDUCED CURTAILMENT OF
DEMAND, WHICH IN TURN IS BEGINNING TO EXERT FURTHER

DOWNWARD PRESSURE ON PRICES. OVER THE MEDIUM TERM, NEW SOURCES OF OIL PRODUCTION IN ALASKA, THE NORTH SEA AND ELSEWHERE, IN COMBINATION WITH THE DAMPENING EFFECTS OF HIGH PRICES ON DEMAND, SHOULD HELP TO BRING ABOUT A BETTER BALANCE BETWEEN DEMAND AND AVAILABLE SUPPLY. IN THE LONGER TERM, WE BELIEVE THE IMPACT OF OUR OWN PROJECT INDEPENDENCE, OF SIMILAR EFFORTS OF OTHER COUNTRIES, AND OF INTERNATIONAL COOPERATIVE EFFORTS IN CONSERVATION AND THE DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES - BOTH CONVENTIONAL AND NON-CONVENTIONAL - SHOULD LEAD TO LESS RELIANCE ON IMPORTED OIL AND REDUCED PROBLEMS ASSOCIATED WITH THE THREAT OF SUPPLY CUT-OFFS AND PRICE INCREASES.

OUR APPRAISAL OF FUTURE MARKETS SUGGESTS THAT THE PRODUCERS AS A GROUP, AND CERTAINLY INDIVIDUAL PRODUCING COUNTRIES, MAY HAVE AN ECONOMIC INTEREST IN REDUCING THE CURRENT HIGH PRICES. IF, IN CONTRAST, PRODUCERS ATTEMPT TO MAINTAIN ALREADY HIGH PRICES, THUS ENCOURAGING EXCESSIVE NEW SUPPLIES OF OIL AND ALTERNATIVE ENERGY SOURCES, THEIR LONG-TERM REVENUES AND MARKET SHARE WILL BE REDUCED BELOW THE OPTIMUM, FOR THEM AND FOR WORLD WELFARE IN BROADEST TERMS.

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THIS MEETING COMES AT A USEFUL TIME BECAUSE A
RATIONAL RESOLUTION OF THE CURRENT TURBULENCE IN WORLD
ENERGY MARKETS REQUIRES A COORDINATED AND INTEGRATED
POLICY RESPONSE BY GOVERNMENTS, PARTICULARLY AMONG
THE MAJOR TRADING NATIONS. THE RESPONSE MUST BE NOT
ONLY IN TERMS OF POSITIVE EFFORTS TO ALLEVIATE THE
ENERGY SHORTAGE ITSELF, BUT, EQUALLY IMPORTANT, OF
EFFORTS TO OFFSET AND MITIGATE THE BROADER FINANCIAL
AND OTHER ECONOMIC IMPACT OF THE CURRENT SITUATION.
OIL CONSUMING COUNTRIES AS A GROUP WILL BE EXPERIENCING
A MASSIVE CURRENT ACCOUNT DEFICIT CAUSED BY HIGHER OIL
PRICES AND ACTIONS BY A SINGLE COUNTRY TO PRESERVE ITS
EARLIER POSITION CAN ONLY SHIFT THE BURDEN TO OTHER OIL
CONSUMERS. SUCH ACTIONS WOULD STIMULATE COUNTER-

ACTIONS, AND THUS BECOME SELF-DEFEATING. WE MUST
INSTEAD ACT TOGETHER TO AVOID SUCH A COURSE OF EVENTS,
AND THIS MEETING CAN PLAY AN IMPORTANT PART IN SUCH A
COOPERATIVE EFFORT.

I WOULD NOW LIKE TO LOOK MORE SPECIFICALLY AT THE
ISSUES AND PROPOSALS THE SECRETARY-GENERAL HAS ASKED US
TO CONSIDER TODAY.

DOMESTIC ECONOMIC POLICIES

CLOSE CONSULTATION AND COOPERATION WILL BE NEEDED
TO DEAL WITH THE SPECIFIC DOMESTIC PROBLEMS ARISING
FROM THE INCREASE IN PAYMENTS TO THE OIL PRODUCERS AND
THE REFLOW OF FINANCIAL INVESTMENTS INTO THE
CONSUMER COUNTRIES.

AS THE IMPACT OF MUCH HIGHER ENERGY COSTS WORKS
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IT WAY THROUGH THE ECONOMIES OF OECD COUNTRIES, NEW
INFLATIONARY PRESSURES HAVE BEEN ADDED TO AN ALREADY
STRONG INFLATIONARY IMPETUS. THESE PRESSURES HAVE NOT
ONLY JEOPARDIZED PLANS FOR MAINTAINING ADEQUATE RATES
OF REAL GROWTH, BUT THEY HAVE THE POTENTIAL TO BE
HIGHLY DISRUPTIVE TO THE INTERNAL STRUCTURE OF OUR
SOCIETIES. CAREFUL CONSIDERATION OF THESE PRESSURES
AND EFFECTIVE POLICY RESPONSES ARE CLEARLY MATTERS TO
BE ADDRESSED BY THE MINISTERS IN MAY.

BALANCE OF PAYMENTS: CURRENT ACCOUNT AND TRADE ISSUES

THE UNITED STATES FIRMLY SUPPORTS THE SECRETARIAT
PROPOSAL DISTRIBUTED YESTERDAY TO REFRAIN FOR AN
INITIAL INTERIM PERIOD FROM TRADE RESTRICTIONS--INCLUD-
ING EXPORT CONTROLS OR INCENTIVES--OR OTHER CURRENT
ACCOUNT MEASURES TO REDRESS ARTIFICIALLY OR RESTRIC-
TIVELY THE PROBLEMS ARISING OUT OF THE PRESENT UNSTABLE
WORLD ECONOMIC CONDITIONS, CAUSED IN LARGE PART BY
THE RECENT INCREASES IN PETROLEUM PRICES. THIS
DECLARATION, IN OUR VIEW, SHOULD BE CONSTRUED AS A
POLITICAL COMMITMENT RATHER THAN A LEGAL DOCUMENT AND
SHOULD NOT BE A SUBSTITUTE FOR PROPOSALS NOW BEING
CONSIDERED IN THE COMMITTEE OF TWENTY FOR A MORE LASTING
CONTROL ON THE USE OF SUCH MEASURES THROUGH AN AMEND-
MENT TO THE IMF ARTICLES. WE BELIEVE, HOWEVER, THAT
THERE IS NEED FOR ACTION THAT CAN BE EFFECTIVE
IMMEDIATELY AND THAT IT IS IN OUR COMMON INTEREST TO
PLEDGE, DURING AN INTERIM PERIOD, NOT TO TAKE MEASURES
ON TRADE OR OTHER CURRENT ACCOUNT TRANSACTIONS.

WE RECOGNIZE THAT DOMESTIC PRESSURES TO RESORT TO SUCH MEASURES IN THE CURRENT SITUATION MAY BECOME GREAT. A MULTILATERAL UNDERTAKING TO REFRAIN FROM SUCH ACTION BY THE MAJOR TRADING COUNTRIES WOULD ASSIST GOVERNMENTS IN RESISTING SUCH DOMESTIC PRESSURES.

THE DECLARATION SHOULD PROVIDE FOR A PROCEDURE OF CONSULTATION WITHIN THE OECD ON ANY QUESTION THAT MAY ARISE WITH REGARD TO ITS IMPLEMENTATION. THE PLEDGE SHOULD BE OPEN TO ALL COUNTRIES. IT IS ESSENTIAL, HOW-
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EVER, THAT INITIALLY ALL MAJOR OECD COUNTRIES JOIN.

WE WOULD ENVISAGE THAT THE DECLARATION INCLUDE THE AVOIDANCE OF EXCESSIVE COMPETITION ON THE RATE AND TERMS COUNTRIES OFFER FOR EXPORT FINANCING. IN FACT, MY OWN COUNTRY HAS RECENTLY RAISED ITS IMPORT-EXPORT BANK RATE TO SEVEN PERCENT, AND WE WOULD HOPE THAT OTHER COUNTRIES WILL ALSO RAISE THEIR RATES TO LEVELS MORE CLEARLY RE-

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FLECTING MARKET RATES. THESE QUESTIONS ARE UNDER CONSIDERATION AND WE HOPE TO REACH AN EARLY UNDERSTANDING.

AS NOTED, WE FEEL IT WOULD BE DESIRABLE TO INCLUDE RESTRICTIONS ON EXPORTS IN THE STANDSTILL, THUS PROTECTING THE INTEREST OF CONSUMING COUNTRIES BY PRESERVING THEIR ACCESS TO SUPPLY. IF WE CAN REACH AGREEMENT AT THIS MEETING ON DRAFT TEXT FOR A DECLARATION ALONG THE LINES OF THE SECRETARIAT PROPOSAL, I WOULD URGE THAT WE SEEK PROMPT CONSIDERATION OF THE DECLARATION BY GOVERNMENTS IN ORDER TO BE READY FOR ACTION BY MINISTERS IN MAY.

BALANCE OF PAYMENTS: CAPITAL MOVEMENTS

WE DO NOT BELIEVE CAPITAL CONTROLS WILL IN GENERAL BE USEFUL IN COPING WITH THE EXTERNAL PAYMENTS IMBALANCES EXPECTED TO RESULT FROM THE OIL SITUATION. EXTERNAL EQUILIBRIUM CAN BEST BE OBTAINED THROUGH MAXIMUM USE OF THE MARKET MECHANISM TO ALLOCATE THE CAPITAL REFLOW FROM OIL PRODUCERS. TO HELP ACCOMPLISH THIS, STRONG EFFORTS SHOULD BE MADE TO REMOVE EXISTING CONTROLS ON BOTH OUTFLOWS AND INFLOWS OF CAPITAL. IT IS PREFERABLE THAT COUNTRIES RECEIVING A LARGER CAPITAL INFLOW THAN NECESSARY TO FINANCE CURRENT ACCOUNT DEFICITS RECHANNEL THE EXCESS TO OTHER COUNTRIES, RATHER THAN HAVE DEFICIT COUNTRIES PLACE RESTRICTIONS ON CAPITAL OUTFLOWS.

A RELATED FINANCIAL ISSUE IS OFFICIAL BORROWING, BOTH IN INTERNATIONAL MARKETS AND FROM OFFICIAL CREDIT FACILITIES. THE LIKELIHOOD OF LARGE CURRENT ACCOUNT DEFICITS HAS CAUSED SOME COUNTRIES TO RESPOND BY SUBSTANTIAL BORROWING IN INTERNATIONAL MARKETS. WE AGREE LIMITED OFFICIAL USE

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THAT THE INTERMEDIATION CAPACITY OF FINANCIAL MARKETS SHOULD BE USED TO THE MAXIMUM EXTENT. INCREASED BORROWING FROM OFFICIAL CREDIT FACILITIES MAY ALSO BE NECESSARY. A NEW IMF OIL FACILITY COULD BE A USEFUL SUPPLEMENT TO OTHER AVAILABLE SOURCES OF CREDIT, BUT ITS STRUCTURE AND TERMS MUST BE APPROPRIATE TO MEET PRESENT NEEDS, PARTICULARLY OF THE COUNTRIES MOST SERIOUSLY AFFECTED.

BILATERAL AGREEMENTS

THE SECRETARY-GENERAL HAS NOTED THAT THERE IS A DANGER IN THE PRESENT ENERGY SITUATION THAT BILATERAL ARRANGEMENTS MAY BE USED MORE FREQUENTLY, IN AN ATTEMPT TO ENSURE SECURITY OF SUPPLY FOR CONSUMERS AND TO INCREASE EXPORT EARNINGS FOR PRODUCERS, AND THAT INTERNATIONAL COMPETITION COULD THUS BE DISTORTED IN TERMS OF PRICE AND TRADE FLOWS.

THE UNITED STATES CONTINUES TO SUPPORT A MULTILATERAL APPROACH TO THE CURRENT OIL PROBLEMS. WE REMAIN OPPOSED TO THOSE BILATERAL ARRANGEMENTS WHICH ENTAIL RECIPROCAL COMMITMENTS ON PRICE OR QUANTITIES OF GOODS THAT WOULD TEND TO DISTORT NORMAL INTERNATIONAL PRICE RELATIONSHIPS AND TRADE FLOWS. BARTER DEALS TO ASSURE SUPPLY OF OIL ARE TYPICAL OF THE TYPE OF ARRANGEMENTS THAT CAN LEAD TO DISCRIMINATORY BARRIERS AGAINST THIRD COUNTRIES.

THIS DOES NOT, HOWEVER, PRECLUDE OTHER FORMS OF BILATERAL RELATIONSHIPS DEVELOPING BETWEEN INDIVIDUAL OIL PRODUCER AND CONSUMER COUNTRIES. BILATERAL ACCORDS WHICH PROVIDE FOR BROAD GUAGE ECONOMIC COOPERATION CAN PLAY A CONSTRUCTIVE ROLE IN PROMOTING OVERALL POLITICAL STABILITY, AND IN SO DOING SET THE STAGE FOR ECONOMIC COOPERATION ON A BROADER MULTILATERAL SCALE. IN SHORT, IT IS NOT THE CONCEPT BUT THE CONTENT OF BILATERAL ARRANGEMENTS THAT SHOULD BE OF PRIMARY CONCERN.

DEVELOPMENT COOPERATION POLICIES

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THE UNITED STATES HAS RECOGNIZED AT THE WASHINGTON ENERGY CONFERENCE, AT THE ROME C-20 MINISTERIAL MEETING AND MOST RECENTLY AT THE SPECIAL SESSION OF THE UNITED NATIONS GENERAL ASSEMBLY THAT THE NEEDS OF THE DEVELOPING COUNTRIES ARE A PARTICULARLY URGENT DIMENSION OF THE ENERGY PROBLEM.

WE SHARE THE GENERAL CONCERN ABOUT THE INABILITY

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OF MANY POOR COUNTRIES TO MEET THEIR ENERGY NEEDS AT
CURRENT HIGH OIL PRICES. A REDUCTION OF PRICE WOULD, OF
COURSE, BE THE BEST ANSWER TO THIS PROBLEM. OIL PRICES
ARE NOT LIKELY, HOWEVER, TO RETURN TO THE LEVELS OF LAST
SEPTEMBER AND MANY DEVELOPING COUNTRIES WILL THEREFORE
IN ANY EVENT FACE SIGNIFICANT OIL-INDUCED BAL-
ANCE OF PAYMENTS PROBLEMS.

OUR APPROACH TO THE CHALLENGE OF ASSISTING THE
DEVELOPING COUNTRIES SHOULD BE TWO-FOLD: FIRST, INDUS-
TRIALIZED COUNTRIES SHOULD AT A MINIMUM AVOID CUTTING

THEIR DEVELOPMENT ASSISTANCE EFFORTS WHILE AT THE SAME TIME CONSIDERING POSSIBLE ADDITIONAL MEASURES TO MITIGATE THE EFFECT OF RECENT PRICE RISES; SECOND, WE SHOULD ENCOURAGE OIL-EXPORTING COUNTRIES TO USE THEIR INCREASED REVENUES TO PROVIDE FUNDS, PARTICULARLY ON CONCESSIONARY TERMS, TO THE MOST NEEDY DEVELOPING COUNTRIES.

THE UNITED STATES SUPPORTS THE EFFORTS UNDER WAY IN THE VARIOUS COMMITTEES OF THE OECD TO REVIEW IN MORE DETAIL THE IMPLICATIONS FOR THE LDCS OF RECENT ENERGY RELATED DEVELOPMENTS. WE URGE THAT THESE FINDINGS BE PREPARED IN TIME FOR CONSIDERATION AT THE MAY MINISTERIAL MEETING.

IN CONCLUSION, LET ME SAY THAT A COORDINATED RESPONSE BY GOVERNMENTS TO THE MANY INTERRELATED PROBLEMS STEMMING FROM THE CURRENT WORLD PETROLEUM SITUATION MUST BE DEVELOPED IN AN ORDERLY AND PRAGMATIC WAY. ULTIMATELY IT MUST INCLUDE ALL COUNTRIES, PRODUCER AND CONSUMER, DEVELOPED AND DEVELOPING. THE PROCESS FOR ACHIEVING THIS OBJECTIVE, HOWEVER, REQUIRES THE FLEXIBLE USE OF VARIOUS EXISTING INSTITUTIONAL FORUMS AND, AS NECESSARY, LIMITED OFFICIAL USE

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SPECIAL AD HOC GROUPINGS DESIGNED TO MEET NEEDS NOT READILY MET WITHIN EXISTING FRAMEWORKS.

THE UNITED STATES CALLED THE WASHINGTON ENERGY CONFERENCE IN FEBRUARY AS A FIRST STEP IN THE PROCESS OF RESOLVING ENERGY RELATED PROBLEMS. THE SUBSEQUENT WORK OF THE ENERGY COORDINATING GROUP HAS DEVELOPED FURTHER CERTAIN ASPECTS OF THE ENERGY RELATIONSHIP AMONG THE MAJOR CONSUMER COUNTRIES. THE OECD IS CONTRIBUTING IN AN IMPORTANT WAY TO THIS PROCESS, FOR EXAMPLE IN THE WORKING GROUPS ESTABLISHED UNDER THE HIGH LEVEL GROUP OF THE OIL COMMITTEE. THE PRESENCE OF SECRETARIAT OFFICIALS AT MEETINGS OF THE ENERGY COORDINATING GROUP HAS ASSURED A CLOSE COMPLEMENTARITY OF EFFORTS BETWEEN THE TWO. OTHER WORK IS MOVING FORWARD WITHIN THE FRAMEWORK OF THE IMF THE WORLD BANK, AND THE UN.

THE UNIQUE CONTRIBUTION OF THIS COMMITTEE -- AND LATER FROM THE COUNCIL AT MINISTERIAL LEVEL -- IS THAT THEY CAN CONSIDER THE POLICY INTERRELATIONSHIPS OF THE MANY ON-GOING EFFORTS AND CAN ATTEMPT TO RECONCILE CONFLICTS OR SPILLOVER EFFECTS FROM ONE AREA TO ANOTHER. THE PURSUIT OF A STANDSTILL ON TRADE AND OTHER CURRENT ACCOUNT RESTRICTIONS IN A RESPONSE TO A PROBLEM BASICALLY OF A FINANCIAL NATURE, IS AN EMINENTLY QUALIFIED EXAMPLE OF AN EFFORT OF THIS KIND. LOOKING AHEAD, I CAN

ONLY SEE A GROWING IMPORTANCE FOR SUCH AN INTERDISCIPLINARY CONSIDERATION OF ECONOMIC ISSUES, AND HENCE A GROWING UTILITY OF THE KIND OF DELIBERATIONS CONDUCTED IN THIS BODY.

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